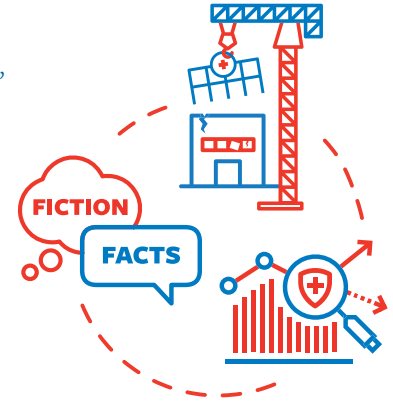


# The Facts: Texas Hospitals Work to Stabilize Amid Harmful Mistruths

Hospitals save lives, regardless of a patient's ability to pay, and put patients first. This was never more evident than during the relentless, unpredictable and deadly pandemic years, when hospitals in Texas and across the country faced both extreme and unusual pressures. Hospitals provided high levels of intensive and complex care, stability and safety during a public health response that brought many other industries to a standstill. Texas hospitals are cornerstones of health in their communities large and small.

While hospitals work to rebuild from continued pandemic impacts, there are efforts to capitalize on a weakened system and dismantle efforts and policies that help preserve the state's critical health care safety net.



**As the 88th legislative session gets underway, the hospital industry seeks to set the record straight and offer facts on several key issues.**

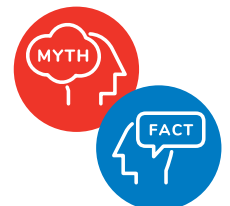
## Texas Hospitals: Separating Fact from Fiction

**Fiction:** *Hospitals have raised prices to increase profits.*

**Fact:** Hospital prices are based on the cost of providing care to patients, and the ability to invest in improvements in quality and infrastructure.

Hospitals are the only industry required to treat everyone, including those who cannot pay. Specifically, the Emergency Medical Treatment and Labor Act (EMTALA) requires hospitals to screen and treat anyone who comes into the emergency room, regardless of their ability to pay. As a result, Texas hospitals provide a significant amount of free and discounted care. Texas hospitals incur \$4.6 billion in uncompensated costs each year, even after supplemental payments.

Hospitals have very little control over the cost of many of the primary requirements of providing care, and these costs have skyrocketed post-pandemic. **Since 2019, Texas hospitals' labor costs are up \$18.1 billion (20.9% higher), drug expenses are up \$2.8 billion, and medical supplies are up \$1.3 billion (8.5% higher).** However, unlike commercial businesses – such as grocery stores and automobile dealers – that can nimbly adjust prices based on inflation and other market fluctuations, hospitals are beholden to rates set by government payers and managed care negotiations.

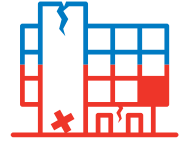


**Fiction:** *Hospital profits soared from pandemic relief payments.*

**Fact:** The financial impact of the pandemic has been staggering for hospitals, and hospital profits have plummeted. Like most businesses, hospitals received significant COVID-19 relief funds to help weather the economic shutdown. But, those funds stopped flowing to hospitals in December 2021, while inflationary costs have only continued to rise.

**Today almost half of Texas hospitals – 48% – are operating in the red, and nearly one out of every 10 is at risk of closure.**

While COVID-19 relief funds and state-provided staff were extraordinary and necessary, that relief did not begin to cover the extra expenses borne by Texas hospitals. Hospitals experienced \$3.2 billion in losses in 2022 – and more than \$3 billion in as-yet unreimbursed costs since the beginning of the pandemic. Total expenses in 2022 for Texas hospitals were \$33.2 billion higher than pre-pandemic levels, outpacing increases in revenue. Today, workforce costs and inflation remain at record levels.



**Fiction:** *Medicaid pays for the actual cost of hospital care.*

**Fact:** Medicaid reimburses hospitals well below the cost of care. On average, Texas Medicaid base payments reimburse hospitals at 72% of the cost of care for inpatient services and 75% of the cost of care for outpatient services.

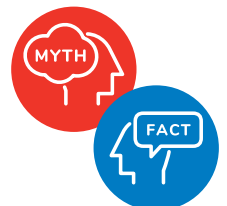
Base rate increases to Medicaid providers can only occur at the direction of the Legislature and with an appropriation of state funds. Urban, children’s and behavioral health hospitals in Texas have not had a permanent, across-the-board base rate increase in more than a decade. Although rural hospitals receive cost-based reimbursement in Medicaid, these rate adjustments are time-lagged and do not adjust in real-time to account for inflationary environments. Because of these very low base rates, Texas hospitals rely on Medicaid supplemental payments to mitigate extensive losses.

**Fiction:** *Supplemental payment programs provided through the Medicaid 1115 Waiver make hospitals whole on Medicaid and uncompensated care.*

**Fact:** Supplemental payment programs do not make hospitals whole. Medicaid supplemental and directed payments are in place in Texas to mitigate base inpatient and outpatient reimbursements that pay well below cost, and to help cover the high cost of uninsured care in a state where one in five people have no health insurance.

Medicaid underpayments create a shortfall for Texas hospitals of \$2.7 billion each year, and uncompensated care for the uninsured results in an additional \$5.2 billion shortfall. Even after all base and supplemental payments are paid, Texas hospitals incur \$4.6 billion in remaining uncompensated costs annually, a shortfall that continues to grow each year.

**Texas hospitals incur \$4.6 BILLION in uncompensated costs each year even after supplemental payments.**



**Fiction:** *The hospital workforce was fully funded during the pandemic, creating hospital revenue and workforce stabilization.*

**Fact:** Texas hospitals are currently in an unsustainable workforce crisis that threatens their ability to care for Texans.

**Approximately 64% of Texas hospitals have reduced services due to staff shortages.**

While the State of Texas was a key partner during COVID-19 and provided staffing support that was an extraordinary and necessary measure, the state alleviated only a portion of the overall staffing strain and associated costs incurred by Texas hospitals. Hospitals raised wages to maintain staff while also paying exorbitant contract staff prices to maintain hospital bed capacity to care for Texans. Hospital labor expenses are 20.9% higher than pre-pandemic levels due to both higher staffing and contract labor expenses, with no meaningful increase in patient revenue. Additionally, according to HHSC's most recent Senate Bill 809 report, Texas hospitals have borne \$1.25 billion in as-yet unreimbursed COVID-19 staffing expenses. These factors are why nearly half of Texas hospitals are operating in the red, and nearly 1 in 10 is at risk of closure.



**Fiction:** *Hospitals are opposed to sharing price information to hide costs or profits.*

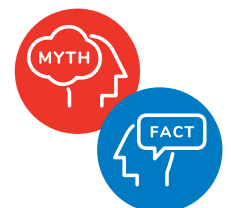
**Fact:** Hospitals believe consumers should have transparent information to make the best possible choices for their care.

To drive greater transparency in the market, hospitals support price transparency for all provider types. Today, only hospitals and health plans have requirements to post their prices. According to Turquoise Health, 75% of Texas hospitals are compliant or mostly compliant with the federal requirements for posting procedure prices – a higher percentage than many other states. Texas hospitals also comply with a state transparency law, overseen by the Health and Human Services Commission. Data in these public postings shine a bright light on the disparities created by cost-shifting while also allowing motivated adversaries to cherry-pick data to serve their purposes.

**Fiction:** *Hospitals implement inappropriate facility fees that unfairly increase treatment costs.*

**Fact:** Hospitals use facility fees to help operate outpatient clinics that expand access to care and increase care coordination, particularly in underserved neighborhoods and other areas that may not be able to sustain a full hospital.

Facility fees charged by hospitals are the result of the extraordinary cost of maintaining a community hospital that is open 24/7. These 24/7 facilities are staffed with highly trained and compensated medical professionals who are available for any patient who walks into the emergency room. The fees are also the result of the cost of maintaining outpatient care access.



Additionally, facility fees reflect compliance with extensive hospital-specific state and federal regulatory requirements. They also are the result of cost shifting to compensate for one in five Texans who have no insurance, as well as Medicare and Medicaid reimbursements, which are well below the actual cost of providing care. As with any business, hospitals must cover their costs, including debt service and a narrow margin for reinvestment, recapitalization and expansion to meet the needs of a growing Texas population. Hospitals serve patients in inpatient and outpatient settings that expand access to care to all.

**Fiction:** *Hospital consolidations and mergers are bad for patients and prices.*

**Fact:** Mergers help keep hospitals open – particularly hospitals that are financially challenged. This is especially evident in rural communities that are faced with low patient volumes and a heavy reliance on Medicare and Medicaid programs that reimburse below the cost of care.

Hospital mergers decrease costs and allow hospital systems to improve quality and expand services, according to data from Charles Rivers Associates. This data shows that hospital acquisitions are associated with a statistically significant 3.3% decrease in operating expenses and a 3.7% decrease in net patient revenue per patient admission. When a hospital joins a system, care is strengthened with increased access to specialists, care coordination and data driven value-based care. It helps decrease readmissions and strengthen the hospital’s ability to negotiate with nationally consolidated health plans and pharmacy benefit managers.

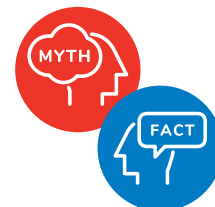
**Fiction:** *Hospitals are dominating contract negotiations with health plans and driving up costs.*

**Fact:** Hospitals are not in a position to dominate contract negotiations in Texas. **Three private insurance companies control 84% of the market,** resulting in significant advantages in negotiations.



As almost half of Texas hospitals finished 2022 with negative margins, the nation’s leading health plans are experiencing extreme profits – termed an “embarrassment of profits” in a recent New York Times story – by including returns that are double what they saw prior to the pandemic. In January, one of the largest health plans reported profits that were 28% higher than one year ago and expectations of another year of double-digit growth for 2023. Legislation supported by the health plans to further their negotiating power in Texas statute will only increase health plan profits and limit patient care.

In the meantime, a survey of hospitals shows they are expending significantly more resources to respond to increased health plan slow-pay practices, like prior authorizations, that can result in delayed or denied patient care.



**Fiction:** *Hospitals are overcharging payers and making record profits.*

**Fact:** Hospitals are not overcharging payers, and in fact provide tremendous amounts of uncompensated and discounted care.

Hospitals incur a \$4.6 billion annual shortfall in Medicaid and uninsured care even after all base and supplemental payments. In contrast, commercial health plans are paid a per member, per month payment, whether that member seeks or receives any health care in that month. At the same time, they build processes to delay and deny payments to providers through limitations like prior authorizations and emergency room denials. This is done in part through very high co-pays and deductibles, and these “catastrophic plans” increase hospital uncompensated care and patient out-of-pocket costs. Further, some of the highest unpaid hospital bills are from insured patients who are unable to pay their high deductibles. These hurdles drive up costs due to patient care delays and increased administrative costs.

**Fiction:** *Hospitals are marking up life-saving drugs.*

**Fact:** Hospitals do not inflate the cost of life-saving drugs. The cost of new and existing drugs has skyrocketed and hospital expenses for drugs have risen in kind.

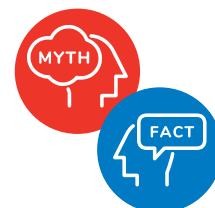
By the end of 2021, total drug expenses were up 28.2% from pre-pandemic levels, and drug expenses per patient were up 36.9%. In 2020, 16 of the top 25 drugs by spending in Medicare Part B (hospital outpatient settings) had price increases greater than inflation. Hospitals saw massive price hikes for certain drugs used in the hospital such as Hydromorphone (up 107%), Mitomycin (99%) and Vasopressin (97%). Health insurance companies also note that these out-of-control prices make up the largest segment of total expenditures in the commercial market.



**Fiction:** *Non-profit hospitals in Texas don't provide their required level of charity care.*

**Fact:** Texas hospitals **ranked first of 50 states for charity care spending** above the value of their tax exemption, according to the Lown Institute.

To earn non-profit status, Texas hospitals must comply with both federal IRS and state hospital charity law requirements. To comply, a hospital must provide dedicated levels of charity care and indigent care based on community needs and net patient revenue. In the last reported year, Texas non-profit hospitals provided over \$3 billion in charity care, exceeding state requirements as a percentage of net patient revenue.



**Fiction:** *With recent investments in mental health and substance use, behavioral health needs are fully funded in Texas*

**Fact:** Behavioral health services are a pressing area of need for funding and resources in Texas.

Texas hospitals, both freestanding psychiatric hospitals and acute care hospitals, are the safety net mental health providers for Texas, most often serving unfunded or underfunded patients with both complex mental and physical care conditions. Behavioral health reimbursement is historically lower than physical care reimbursement, making these services more difficult to provide and their workforce shortages more acute. In Texas, primary care reimbursement rates are 10% higher than reimbursement rates for behavioral health services.

**Fiction:** *Rural hospitals fared well during the pandemic and are no longer at risk of closure.*

**Fact:** Rural hospitals in Texas are at serious risk of closure as they continue to face skyrocketing expenses and depleted resources.

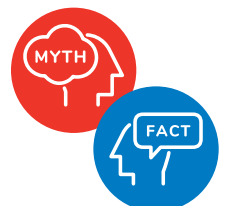


Prior to the pandemic, Texas saw more rural hospital closures than any other state. State and federal COVID-19 relief initially eased funding pressures on rural hospitals, and Medicaid allows rural hospitals to receive cost-based Medicaid reimbursement and a \$500 Medicaid add-on payment for labor and delivery. However, despite this assistance, rural hospitals continue to face a precarious outlook: **26% of Texas rural hospitals are at serious risk of closure, a more than 10-percentage point increase in closure risk since the pandemic began.** Rural communities have a high concentration of Medicare, Medicaid and uninsured patients, face extreme workforce costs and recruitment challenges, and lack volumes of care. After the Delivery System Reform Incentive Payment program expired in 2021, the state's new supplemental payment methodologies have negatively impacted rural markets. Payment challenges for rural hospitals will persist if not addressed.

**Fiction:** *Hospitals oppose patient billing guidelines.*

**Fact:** The American Hospital Association has developed voluntary Patient Billing Guidelines that outline how hospitals can best serve their patients and communities and ensure financial obligations do not impede care.

Texas hospitals have voluntarily adhered to the AHA principles to assist people in accessing available coverage, to communicate clearly about a patient's financial obligations and to help people get financial assistance. Many Texas hospitals provide onsite help to apply for financial assistance, enroll in Medicaid or refer patients to offsite help. State law requires hospitals to provide their charity care policy to any patient seeking care.



Hospitals are committed to consistently and fairly applying their financial assistance policies and ensuring review and accountability of billing policies.

## Texas Hospitals Support Patients, Quality and Access

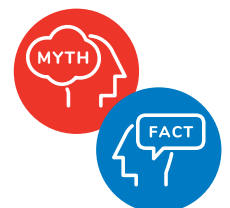
Texas hospitals have proven to be critical to the health and safety of Texans. As Texas works to address its overall infrastructure and meet the growing needs of the state, hospitals and health care workers are foundational to the state's ability to run smoothly – in times of crises and every day.

For the 88th legislative session, Texas hospitals are squarely focused on stabilizing health care, addressing workforce challenges, access to care and the vibrant economic role hospitals play in communities across the state. **This session, THA's focus is on 1) Workforce, 2) Behavioral Health, 3) Access/Payer Accountability, and 4) Financial Stability.**

**Workforce:** Re-fortifying a depleted workforce is paramount for hospitals following the COVID-19 pandemic's damaging impact on hospital staff and crucial to bringing down the post-COVID costs of health care staffing. THA is calling for the Legislature to enhance the health care pipeline – and address other holes in the health care workforce – by committing funding to nursing and physician educational capacity, as well as health care professional loan repayment programs. Central to building and maintaining the health care workforce is making sure health care workers feel safe in their work environment.

**Mental and Behavioral Health:** The alarming state of behavioral health in Texas coming out of COVID-19 demands attention. THA supports the removal of the 15-day “institutions of mental disease (IMD)” Medicaid limit for adults requiring longer-term inpatient care. Funding additional inpatient community beds, at appropriate rates, is crucial to ensuring access to care throughout the state. THA also supports full Medicaid coverage for partial hospitalization services and intensive outpatient therapy to give mental health patients access to a full continuum of care and prevent re-hospitalization.

**Access/Payer Accountability:** THA supports comprehensive health coverage expansion to insure more Texans, including extending Medicaid postpartum coverage to 12 months for new mothers. Texas hospitals also are focused on holding insurers accountable for their bureaucratic impediments to care that often culminate in “slow payment, low payment or no payment” for hospitals and providers. Texas should clarify the state's “prudent layperson” standard for emergency care, requiring health plans to base emergency care coverage on the patient's presenting symptoms, rather than the final diagnosis.





**Financial Stability:** Extreme financial pressures on a life-saving industry creates risk for patients and the state’s overall health. The financial strain on hospitals over the course of the pandemic was profound. Nearly half of all Texas hospitals finished 2022 with negative operating margins. Almost one out of every 10 Texas hospitals is a risk of closure. **This session, Texas hospitals are calling for:**

- Maintenance of Medicaid payments for inpatient and outpatient care, as well as maintenance of supplemental payments to help cover unreimbursed costs;
- Continued use of local or regional hospital provider participation funds to finance Medicaid hospital programs, pay for uncompensated care and support the Medicaid 1115 Waiver that promotes access to care; and
- Opposition to any decrease in hospital reimbursement payments, including cuts to site-neutral payments.

## Resources

- ▣ [America’s Health Insurance Plans, “Gaming the System” Research Report](#)
- ▣ [American Hospital Association Drug Pricing Report 2019](#)
- ▣ [American Hospital Association Report on Hospital Merger Benefits](#)
- ▣ [CMS.gov page on Emergency Medical Treatment and Labor Act](#)
- ▣ [Health Resources & Services Administration, Provider Payment Data](#)
- ▣ [Kaufman Hall Financial Impact of COVID-19 on Texas Hospitals](#)
- ▣ [Lown Institute Hospitals Fair Share Spending Report](#)
- ▣ Media Sources: [New York Times](#), [Becker’s](#), [Fierce Healthcare](#)
- ▣ [Texas Department of State Health Services 2021 Community Benefits Charity Care Report](#)
- ▣ [Texas Health and Human Services Commission Uncompensated Care Report 2020](#)
- ▣ [Texas Health and Human Services Commission, COVID-19 Public Health Emergency Reporting](#)
- ▣ [Texas Health and Human Services Commission, Funding Impacts of the DSRIP Transition, 2022](#)
- ▣ [Texas Health and Human Services Commission, Provider Hospital Rate Tables](#)
- ▣ [Texas Hospital Association Report: Soaring Staff Vacancies Result in Reduced Hospital Services](#)



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